NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA): A CANADIAN PERSPECTIVE

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ABSTRACT

Advantages of NAFTA should not be evaluated based on protectionist pressures created by uncompetitive industries but by looking at the potential for **future** trade. Many of the negative consequences of NAFTA are likely to occur with or without NAFTA. However, a bilateral agreement between the US and Mexico would have put Canada at a disadvantage in trading with the US.

Canada is a trading nation that derives approximately thirty percent of its GNP from exports. Approximately 75 percent of Canadian exports go to the U.S. While the volume of trade with the US explains the reason for Canada's desire to join NAFTA, the current size of trade with Mexico is not the main reason for Canada's involvement. A Mexico-USA FTA would have increased the competitiveness of the US firms by allowing access to cheaper Mexican labor and other inputs. Consequently, the Canadian firms would have been at a disadvantage both in competing in the US as well as in defending their domestic market against the US and the Mexican firms. The latter is due to the fact that Mexican firms would also benefit from access to U.S. technology and investment. The US is not just negotiating a multilateral trade agreement with Canada and Mexico but is also addressing trade issues with other countries in Latin America and the Caribbean. The nations of Latin America are attractive places to do business in as they offer many opportunities for investment that could lead to advantages in other markets.

It is possible to identify some of the potential areas for increasing exports to Mexico by examining (1) Canada's ability to export, (2) the demand by Mexico and (3) Canada's share of Mexican imports. The sectors that meet all three conditions have the most potential. In these areas, Canada has captured a fair share of the world market, Mexico has sizable imports, but Canada's share in Mexico is small. Examples include organic chemicals, mineral fuels, cereals, plastics, precision instruments, inorganic chemicals and aluminum articles.

NAFTA will create trade among its members as a result of lower costs by decreasing tariffs, reducing non-tariff barriers and integrating the three economies. In all three countries, domestic prices are expected to decline as a result of reduced tariffs and more efficient allocation of resources. At the steady state, it could also lead to higher levels of income and employment for all partners.

The real issue for Canada is not so much whether NAFTA is beneficial or whether the cost of adjustment could be borne by the government or what will happen to the businesses that are hurt by it. The issue is much broader. Canada cannot continue to hide behind its protective trade walls and expect to maintain its high standard of living. It will have to become more competitive internationally, and the years of protectionism will exact their cost whether the country has NAFTA or not. The biggest benefit of NAFTA for Canada might very well be the change of attitude that will accompany it among employees, business and government. NAFTA will actually provide a certain degree of insurance by providing access to a secure market against EC and the other competitors including Japan.